

South Carolina  
PUBLIC EMPLOYEE BENEFIT AUTHORITY

**PEBA**

# **GASB Pension Standards: *An Educational Overview***

PEBA Retirement Division

**GFOA Fall Conference  
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# Governmental Accounting Standards Board

## “New” GASB Pension Accounting Standards

- *GASB 67, Financial Reporting for Pension Plans*
  - ✓ Replaces GASB 25 and 50
  - ✓ Affects reporting by PEBA
  - ✓ Effective for fiscal periods beginning after 6/15/2013
- *GASB 68, Accounting and Financial Reporting for Pensions*
  - ✓ Replaces GASB 27 and 50
  - ✓ Affects reporting by participating employers
  - ✓ Effective for fiscal periods beginning after 6/15/2014

## **What Will the New Standards Change?**

- Change the way public pension plans, and the employers that participate in the plans, calculate and report the costs and obligations of the plans.
- Completely disconnect the accounting for and reporting of pensions from the funding of pensions.

# What Will the New Standards NOT Change?

- The new standards do NOT change plan benefits.
  - ✓ A retiree receiving a \$1,000 monthly benefit under the current standards will continue to receive a \$1,000 monthly benefit under the new standards.
- The new standards do NOT change how contribution rates are determined.
  - ✓ Rates are either set in statute or calculated as part of the annual actuarial valuation and voted on by the PEBA Board and the Budget & Control Board.
- The new standards should NOT change the way employers establish their budgeted contributions.

## **GASB 67 and 68 Apply to Pensions Only**

- These new standards only impact accounting and financial reporting for pension plans and employers participating in the plans.
- Other Post-Employment Benefits (OPEB) liabilities remain separate, and reporting related to such is not impacted by GASB 67 and 68; however, exposure drafts were issued in June 2014 related to proposed changes to accounting and financial reporting for OPEB.

# What IS Required by the New Standards?

- Require the pension fund to use a different method of calculating its Net Pension Liability (NPL) – previously referred to as the Unfunded Liability.
- Require participating employers to recognize their proportionate share of the plans' collective NPL in their financial statements as well as Pension Expense that will not coincide with actual contributions paid in accordance with the actuarially determined contribution.
- Require additional financial statement disclosures for both pension plans and participating employers.

## Intent of the New Standards

- According to GASB, the new standards are intended to:
  - Improve the way state and local governments report pension liabilities and expenses providing a more realistic representation of the complete impact of pension obligations.
  - Improve the decision-usefulness of the reported information and increase the transparency, consistency, and comparability of pension information across state and local governments.
- GASB believes pension benefits are part of overall compensation package, and certain pension-related costs should be included in employer's financial statements.

# What Does this Mean for Participating Employers?

- Employers who issue financial statements in accordance with Generally Accepted Accounting Principles (GAAP) will have to record a liability for their proportionate share of the plans' collective NPL on the face of their Statement of Net Position.
- Employers should educate themselves on the impact of GASB 68 and be prepared to explain the liability to governing boards, stakeholders, and taxpayers.
- Employers need to ensure PEBA has the most relevant contact information in order to receive communications related to GASB 68 reporting.



# What Does this Mean for Participating Employers?

- Employers will record Pension Expense based on their proportionate share of an actuarially calculated Pension Expense.
- Employers will record Deferred Outflows/Inflows of Resources based on their proportionate share of actuarially calculated deferrals.
- Employers reporting on a different fiscal cycle will also report Deferred Outflows of Resources for contributions made after the measurement date but before their fiscal year end (GASB 71).

# What Does this Mean for Participating Employers?

- SCRS and PORS are cost-sharing multiple employer plans, so the NPL, Pension Expense, and Deferred Outflows/Inflows will be proportionately allocated among participating employers based on the employer's contribution effort relative to all employer contributions.
- Employers may be impacted by increased audit costs due to the complexity of the new requirements and the additional information that must be reported in their financial statements; however, PEBA is planning to engage its external audit firm to separately audit and express an opinion on the schedules containing GASB 68 information.

# Net Pension Liability

Total Pension Liability  
(Plan Fiduciary Net Position\*)

Net Pension Liability

\* The market value of plan assets as of the measurement date.

# Proportionate Share Calculation

	<u>Employer Contributions</u>	<u>Calculation</u>	<u>Proportionate Share</u>
Employer A	37,750,000	= 37,750,000/945,000,000	3.99471%
Employer B	4,000,000	=4,000,000/945,000,000	0.42328%
Employer C	28,000	= 28,000/945,000,000	0.00296%
All Others	<u>903,222,000</u>	= 903,222,000/945,000,000	<u>95.57905%</u>
Total	\$ <u>945,000,000</u>		<u>100%</u>

# Net Pension Liability Calculation

Total Pension Liability (TPL)	40,659,411,279	
Plan Fiduciary Net Position (FNP)	<u>(22,791,322,000)</u>	
Net Pension Liability (NPL)	<u>\$ 17,868,089,279</u>	
	<u>Proportionate Share</u>	<u>NPL for Financial Statements</u>
Employer A	3.99471%	713,778,170
Employer B	0.42328%	75,632,124
Employer C	0.00296%	529,425
All Others	95.57905%	<u>17,078,149,560</u>
		<u>\$ 17,868,089,279</u>

# Changes in the Net Pension Liability

## Most immediately recognized within Pension Expense, such as -

- Service cost (annual cost of current service),
- Interest on the total pension liability,
- Impact of changes in plan benefits,
- Plan administrative costs,
- Plan member contributions, and
- Expected return on pension plan assets.

## Exceptions include the following –

- Difference in projected and actual return on pension plan assets (deferred),
- Difference between expected and actual experience in the TPL (deferred),
- Effect of changes in assumptions (deferred), and
- Employer contributions (direct impact on NPL).

# Deferred Outflows/(Inflows) of Resources

A portion of each deferred outflow/(inflow) will be recognized in the current period with the remaining balance recognized in future periods.

- Deferrals recognized over the average expected remaining service lives of all employees provided with pensions through the plan:
  - Deferred inflow/outflow related to differences between expected and actual experience in the TPL
  - Deferred inflow/outflow related to effect of changes in assumptions
- Deferral recognized over a closed, 5-year period
  - Difference in projected and actual return on pension plan assets

# Deferred Outflows/(Inflows) of Resources

## Additional Deferrals Specific to Cost-Sharing Employers:

- Deferrals recognized over the average expected remaining service lives of all employees provided with pensions through the plan:
  - Net Effect of Change in Employer's Proportionate Share of the Collective Net Pension Liability
  - Difference between Employer's Proportionate Share of Expected Contributions and Actual Employer Contributions
- Contributions subsequent to the measurement date
  - Recorded as a Deferred Outflow of Resources in the current period (reversed in the following period)



## Measurement Date

- Must be no earlier than the end of the employer's prior fiscal year end, and once determined, must be consistently applied from period to period.
- Will always be based on the Plans' fiscal year end, which is June 30.

# Measurement Date

Employer's Fiscal Year End	GASB Effective Date / Initial Report Date	Initial Measurement Date	Associated Valuation Date
January 31	January 31, 2016	June 30, 2015	July 1, 2014
February 28	February 28, 2016	June 30, 2015	July 1, 2014
March 31	March 31, 2016	June 30, 2015	July 1, 2014
April 30	April 30, 2016	June 30, 2015	July 1, 2014
May 31	May 31, 2016	June 30, 2015	July 1, 2014
June 30	June 30, 2015	June 30, 2014 or June 30, 2015	July 1, 2013 or July 1, 2014
July 31	July 31, 2015	June 30, 2015	July 1, 2014
August 31	August 31, 2015	June 30, 2015	July 1, 2014
September 30	September 30, 2015	June 30, 2015	July 1, 2014
October 31	October 31, 2015	June 30, 2015	July 1, 2014
November 30	November 30, 2015	June 30, 2015	July 1, 2014
December 31	December 31, 2015	June 30, 2015	July 1, 2014

## **Prior Period Adjustment – Year of Implementation**

**According to Paragraph 137 of GASB 68 & Questions 267 and 268 of GASB 68 Implementation Guide, the following steps should be taken to record the adjustment at the beginning of the initial year of implementation:**

- Add the beginning net pension liability,
- Add deferred outflows of resources for contributions between the measurement date of beginning net pension liability and beginning of fiscal year (if applicable),
- Add other deferred outflows/inflows of resources, if determinable at transition\*, and
- Adjust beginning net position for balance.

\*PEBA is not expecting to provide this information.

# Notes to the Financial Statements

- **Description of the pension plan**
  - Plan name, administrator (PEBA), indication as a cost-sharing plan
  - Benefit terms
    - Classes of employees covered
    - Types of benefits provided
    - Key elements of the pension formulas
    - Authority under which benefits terms are established/amended
  - Contribution terms
    - Basis for determination (statute, actuarial, etc)
    - Authority under which established
    - Employer contribution rates
    - Amount paid during current reporting period
  - Availability of stand-alone financial report for the pension plan, and how to obtain (link to report on PEBA's Retirement Division's website).

# Notes to the Financial Statements

- **Information about employer's proportionate share of NPL**
  - Assumptions and Other Inputs
    - Assumptions/inputs including inflation, salary changes, and postemployment benefit changes
    - Source of mortality assumptions
    - Dates of experience studies
  - Discount Rate
    - Rate applied in the measurement of the TPL and whether it incorporates a municipal bond rate
    - Rates applied for each period of measurement, if changed
    - Assumptions about projected cash flows of the plan
    - Long-term expected rate of return (LT RoR) on plan assets and how determined

# Notes to the Financial Statements

- **Information about employer's proportionate share of NPL**
  - Discount Rate (continued)
    - If using a blended rate, periods of projected benefit payments to which the LT RoR and municipal bond rates were applied
    - Assumed asset allocation of plan's portfolio with LT RoR for each major asset class, and whether returns are arithmetic or geometric
    - Sensitivity Analysis of the NPL (LT RoR + / - 1%)
  - Pension Plan's Fiduciary Net Position or a reference to the plan's financial report
  - Net Pension Liability
    - Employer's proportionate share of the NPL (\$ and %) and the basis for determination as well as the change in share since prior measurement date

# Notes to the Financial Statements

- **Information about employer's proportionate share of NPL**
  - Net Pension Liability (continued)
    - Measurement date of the collective NPL, date of actuarial valuation upon which the TPL is based, and if applicable, fact that update procedures were used to roll forward the TPL to the measurement date
    - Brief description of –
      - ✓ Changes in assumptions since prior measurement date
      - ✓ Changes in benefit terms since prior measurement date
      - ✓ Nature of any change between measurement date of the NPL being reported and the employer's reporting date that are expected to have a significant impact on the employer's proportionate share of the NPL & the expected amount related to the change, if known
  - Pension Expense recognized by the employer in the reporting period

# Notes to the Financial Statements

- **Information about employer's proportionate share of NPL**
  - Balance of employer's deferred outflows of resources and deferred inflows of resources, as applicable
    - Difference between expected and actual experience
    - Difference due to change in assumptions or other inputs
    - Net difference between expected and actual earnings on plan investments
    - Changes in employer's proportion and between actual and expected (proportionate share) contributions
    - Contributions subsequent to the measurement date
  - Schedule showing
    - Net impact of the above on pension expense for each of the subsequent five years and in aggregate thereafter
    - Amount of deferred outflows of resources above that will be included as a reduction of the collective NPL



# Required Supplementary Information

- **10 year Schedule of Employer's Proportionate Share of the NPL –**
  - Employer's proportionate share (\$ and %)
  - Employer's covered payroll
  - Employer's proportionate share (\$) as a percentage of employer's covered payroll
  - Pension plan's fiduciary net position as a percentage of the TPL

**Notes:**

- **Must be separately presented for each pension plan through which pensions are provided.**
- **Can build prospectively as trend data is available.**

# Required Supplementary Information

- **10 year Schedule of Employer Contributions –**
  - Statutorily required contribution
  - Amount of contributions recognized by the plan
  - Difference between the two above figures
  - Employer’s covered payroll
  - Amount of contributions recognized by the plan as a percentage of employer’s covered payroll

**Notes:**

- **Must be separately presented for each pension plan through which pensions are provided.**
- **Can build prospectively as trend data is available.**

## What is PEBA Doing to Help?

- Working with its consulting actuary and external auditor to ensure it is prepared and has the facts and figures necessary to provide participating employers with accurate and timely information in response to the requirements.
- Providing information to participating employers and their auditors, public policy makers, members/retirees, and other stakeholders.
- Unaudited GASB 68 data for the June 30, 2014 measurement date is expected to be located on PEBA Retirement Division's website by early November to allow employers the ability to easily obtain the information.

## What Will PEBA Provide?

- PEBA will provide employers with schedules similar to the examples provided by the AICPA in AU-C Section 9805.
- PEBA's external audit firm is expected to perform an audit and express an opinion on the schedules in accordance with AICPA guidance in AU-C Section 9805.
- The schedules and audit opinion are expected to be provided on PEBA's Retirement Division website within the employer section of PEBA's GASB Resource Center.

# Sample Schedules

## EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations  
As of and for the year ended 6/30/20X5

Employer	20X5 Actual Employer Contributions	Employer Allocation Percentage	
Employer 1	\$ 2,143,842	36.376	%
Employer 2	268,425	4.554	
Employer 3	322,142	5.466	
Employer 4	483,255	8.199	
Employer 5	633,125	10.742	
Employer 6	144,288	2.448	
Employer 7	95,365	1.618	
Employer 8	94,238	1.599	
Employer 9	795,365	13.495	
Employer 10	267,468	4.538	
Employer 11	403,527	6.847	
Employer 12	165,886	2.815	
Employer 13	68,454	1.161	
Employer 14	6,240	0.106	
Employer 15	2,144	0.036	
<b>Total</b>	<b>\$ 5,893,764</b>	<b>100.000</b>	<b>%</b>

# Sample Schedules

EXAMPLE COST SHARING PENSION PLAN  
Schedule of Pension Amounts by Employer  
As of and for the year ended 6/30/20X5

Entity	Net Pension Liability	Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
		Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Employer 1	\$ 45,224,620	438,859	1,589,847	1,404,206	695,426	4,108,338	355,917	–	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	–	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	–	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	–	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	–	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	–	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	–	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	–	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	–	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	–	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	–	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	–	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	–	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	–	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	–	698	1,050	1,888	7	1,895
<b>Total for All Entities</b>	<b>\$ 124,325,432</b>	<b>1,206,453</b>	<b>4,315,618</b>	<b>3,860,253</b>	<b>1,939,406</b>	<b>11,321,730</b>	<b>978,435</b>	<b>–</b>	<b>1,939,406</b>	<b>2,917,841</b>	<b>5,243,245</b>	<b>–</b>	<b>5,243,245</b>

## More Information Needed?

- Check out PEBA Retirement Division's GASB Resource Center located at [www.retirement.sc.gov/gasb/resourcecenter](http://www.retirement.sc.gov/gasb/resourcecenter)
- Contact PEBA Retirement Division Staff with Questions [PensionGASB@peba.sc.gov](mailto:PensionGASB@peba.sc.gov)
- Complete GASB Survey located at <https://www.surveymonkey.com/s/H9YR2LB>
- Sign up for our employer RSS feed at <http://www.retirement.sc.gov/employers/default.htm>

# **GASB Pension Standards**

# **Questions?**



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